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e.g., A–2, P–2, in the case of short-term ratings.

(4) Revenue bonds or similar obligations, including loans and leases, that are obligations of state or political subdivisions of the United States or other OECD countries but for which the government entity is committed to repay the debt only out of revenue from the specific projects financed.

(5) Claims on other financing institutions that:

(i) Are not covered by the provisions of paragraph (b)(17) of this section, but otherwise meet similar capital, risk identification and control, and operational standards, or

(ii) Carry an investment-grade or higher NRSRO rating or the claim is guaranteed by a parent company with such a rating, and

(iii) The other financing institution has endorsed all obligations it pledges to its funding Farm Credit bank with full recourse.

(d) *Category 4: 100 Percent.* This category includes all assets not specified in the categories above or below nor deducted dollar-for-dollar from capital and assets as discussed in §615.5210(c). This category comprises standard risk assets such as those typically found in a loan or lease portfolio and includes:

(1) All other claims on private obligors.

(2) Claims on, or portions of claims guaranteed by, non-OECD banks with a remaining maturity exceeding 1 year.

(3) Claims on, or portions of claims guaranteed by, non-OECD central governments that are not included in paragraphs (a)(4) or (b)(4) of this section, and all claims on non-OECD state and local governments.

(4) Industrial-development bonds and similar obligations issued under the auspices of states or political subdivisions of the OECD-based group of countries for the benefit of a private party or enterprise where that party or enterprise, not the government entity, is obligated to pay the principal and interest.

(5) Premises, plant, and equipment; other fixed assets; and other real estate owned.

(6) Recourse obligations, direct credit substitutes, residual interests (other than credit-enhancing interest-only

strips) and asset-or mortgage-backed securities that are rated in the lowest investment grade category, *e.g.*, BBB, in the case of long-term ratings, or the third highest rating category, *e.g.*, A–3, P–3, in the case of short-term ratings.

(7) Stripped mortgage-backed securities and similar instruments, such as interest-only strips that are not credit-enhancing and principal-only strips (including such instruments guaranteed by Government-sponsored agencies).

(8) Investments in Rural Business Investment Companies.

(9) If they have not already been deducted from capital:

(i) Investments in unconsolidated companies, joint ventures, or associated companies.

(ii) Deferred-tax assets.

(iii) Servicing assets.

(10) All non-local currency claims on foreign central governments, as well as local currency claims on foreign central governments that are not included in any other category.

(11) Claims on other financing institutions that do not otherwise qualify for a lower risk-weight category under this section; and

(12) All other assets not specified above, including but not limited to leases and receivables.

(e) *Category 5: 200 Percent.* Recourse obligations, direct credit substitutes, residual interests (other than credit-enhancing interest-only strips) and asset-or mortgage-backed securities that are rated one category below the lowest investment grade category, *e.g.*, BB.

[70 FR 35351, June 17, 2005]

§615.5212 Credit conversion factors—off-balance sheet items.

(a) The face amount of an off-balance sheet item is generally incorporated into risk-weighted assets in two steps. For most off-balance sheet items, the face amount is first multiplied by a credit conversion factor. (In the case of direct credit substitutes and recourse obligations the full amount of the assets enhanced are multiplied by a credit conversion factor). The resultant credit equivalent amount is assigned to the appropriate risk-weight category described in §615.5211 according to the

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obligor or, if relevant, the guarantor or the collateral.

(b) Conversion factors for various types of off-balance sheet items are as follows:

(1) *0 Percent.* (i) Unused commitments with an original maturity of 14 months or less;

(ii) Unused commitments with an original maturity greater than 14 months if:

(A) They are unconditionally cancellable by the institution; and

(B) The institution has the contractual right to, and in fact does, make a separate credit decision based upon the borrower's current financial condition before each drawing under the lending arrangement.

(2) *20 Percent.* Short-term, self-liquidating, trade-related contingencies, including but not limited to commercial letters of credit.

(3) *50 Percent.* (i) Transaction-related contingencies (*e.g.*, bid bonds, performance bonds, warranties, and performance-based standby letters of credit related to a particular transaction).

(ii) Unused loan commitments with an original maturity greater than 14 months, including underwriting commitments and commercial credit lines.

(iii) Revolving underwriting facilities (RUFs), note issuance facilities (NIFs) and other similar arrangements pursuant to which the institution's customer can issue short-term debt obligations in its own name, but for which the institution has a legally binding commitment to either:

(A) Purchase the obligations its customer is unable to sell by a stated date; or

(B) Advance funds to its customer if the obligations cannot be sold.

(4) *100 Percent.* (i) The full amount of the assets supported by direct credit substitutes and recourse obligations for which an institution directly or indirectly retains or assumes credit risk. For risk participations in such arrangements acquired by the institution, the full amount of assets supported by the main obligation multiplied by the acquiring institution's percentage share of the risk participation. The capital requirement under this paragraph is limited to the institution's maximum contractual exposure,

less any recourse liability account established under generally accepted accounting principles.

(ii) Acquisitions of risk participations in bankers acceptances.

(iii) Sale and repurchase agreements, if not already included on the balance sheet.

(iv) Forward agreements (*i.e.*, contractual obligations) to purchase assets, including financing facilities with certain drawdown.

(c) *Credit equivalents of interest rate contracts and foreign exchange contracts.*

(1) Credit equivalents of interest rate contracts and foreign exchange contracts (except single-currency floating/floating interest rate swaps) are determined by adding the replacement cost (mark-to-market value, if positive) to the potential future credit exposure, determined by multiplying the notional principal amount by the following credit conversion factors as appropriate.

CONVERSION FACTOR MATRIX
(In percent)

Remaining maturity	Interest rate	Exchange rate	Commodity
1 year or less	0.0	1.0	10.0
Over 1 to 5 years	0.5	5.0	12.0
Over 5 years	1.5	7.5	15.0

(2) For any derivative contract that does not fall within one of the categories in the above table, the potential future credit exposure is to be calculated using the commodity conversion factors. The net current exposure for multiple derivative contracts with a single counterparty and subject to a qualifying bilateral netting contract is the net sum of all positive and negative mark-to-market values for each derivative contract. The positive sum of the net current exposure is added to the adjusted potential future credit exposure for the same multiple contracts with a single counterparty. The adjusted potential future credit exposure is computed as $A_{\text{net}} = (0.4 \times A_{\text{gross}}) + 0.6 (NGR \times A_{\text{gross}})$ where:

(i) A_{net} is the adjusted potential future credit exposure;

(ii) A_{gross} is the sum of potential future credit exposures determined by multiplying the notional principal

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amount by the appropriate credit conversion factor; and

(iii) NGR is the ratio of the net current credit exposure divided by the gross current credit exposure determined as the sum of only the positive mark-to-markets for each derivative contract with the single counterparty.

(3) Credit equivalents of single-currency floating/floating interest rate swaps are determined by their replacement cost (mark-to-market).

[70 FR 35351, June 17, 2005]

§ 615.5215 Distribution of earnings.

The boards of directors of System institutions may not reduce the permanent capital of the institution through the payment of patronage refunds or dividends, or the retirement of stock or allocated equities except retirements pursuant to §§ 615.5280 and 615.5290 if, after or due to the action, the permanent capital of the institution would fail to meet the minimum permanent capital adequacy standard established under § 615.5205 for that period. This limitation shall not apply to the payment of noncash patronage refunds by any institution exempt from Federal income tax if the entire refund paid qualifies as permanent capital at the issuing institution. Any System institution subject to Federal income tax may pay patronage refunds partially in cash if the cash portion of the refund is the minimum amount required to qualify the refund as a deductible patronage distribution for Federal income tax purposes and the remaining portion of the refund paid qualifies as permanent capital.

[53 FR 39247, Oct. 6, 1988, as amended at 53 FR 40046, Oct. 13, 1988]

§ 615.5216 [Reserved]

Subpart I—Issuance of Equities

SOURCE: 53 FR 40046, Oct. 13, 1988, unless otherwise noted.

§ 615.5220 Capitalization bylaws.

(a) The board of directors of each System bank and association shall, pursuant to section 4.3A of the Farm Credit Act of 1971 (Act), adopt capitalization bylaws, subject to the approval

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of its voting shareholders that set forth:

(1) Classes of equities and the manner in which they shall be issued, transferred, converted and retired;

(2) For each class of equities, a description of the class(es) of persons to whom such stock may be issued, voting rights, dividend rights and preferences, and priority upon liquidation, including rights, if any, to share in the distribution of the residual estate;

(3) The number of shares and par value of equities authorized to be issued for each class of equities. However, the bylaws need not state a number or value limit for these equities:

(i) Equities that are required to be purchased as a condition of obtaining a loan, lease, or related service.

(ii) Non-voting stock resulting from the conversion of voting stock due to repayment of a loan.

(iii) Non-voting equities that are issued to an association's funding bank in conjunction with any agreement for a transfer of capital between the association and the bank.

(iv) Equities resulting from the distribution of earnings.

(4) For Farm Credit Banks, agricultural credit banks (with respect to loans other than to cooperatives), and associations, the percentage or dollar amount of equity investment (which may be expressed as a range within which the board of directors may from time to time determine the requirement) that will be required to be purchased as a condition for obtaining a loan, which shall be not less than, 2 percent of the loan amount or \$1,000, whichever is less;

(5) For banks for cooperatives and agricultural credit banks (with respect to loans to cooperatives), the percentage or dollar amount of equity or guaranty fund investment (which may be expressed as a range within which the board may from time to time determine the requirement) that serves as a target level of investment in the bank for patronage-sourced business, which shall not be less than, 2 percent of the loan amount or \$1,000, whichever is less;